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TRADE ADJUSTMENT ASSISTANCE IN JORDAN

Final Report

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Final Report

USAID JORDAN ECONOMIC DEVELOPMENT PROGRAM

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1.0 Abstract:

A proposed tariff reform in Jordan and various free trade agreements that Jordan has already entered into or is likely to enter will force previously protected firms producing for the domestic market to adjust to increased competition from imports. While the benefits of these trade liberalization initiatives generally far outweigh losses to these firms or their workers, various Trade Adjustment Assistance (TAA) programs can moderate or such losses. Programs for providing such assistance do not have a very good track record in terms of providing net benefits to funds expended, but may be well worth while in offsetting opposition to trade liberalization.

The experience in other countries provides useful lessons in how to better design these programs, although it is also suggested that it might be better to concentrate resources on improving the enabling environment for all firms, and not just those harmed by trade liberalization programs. If it is decided by policy makers in Jordan that such TAA programs are necessary in Jordan to facilitate reform, the experience of other countries can be used in improving the design of such efforts.

A Tariff Adjustment Assistance Facility for firms in Jordan (J-TAAF) is outlined. The **J-TAAF** program is put into perspective with other programs or projects in Jordan to existing support programs for Jordanian firms. As with those programs, J-TAAF would provide grants to cover a share of the costs of approved re-structuring programs needed for efficient adjustment to increased competition from imports. Trade Adjustment Assistance for workers has often been found to be 'ineffective' due to the disincentives against rapidly finding new jobs and relevant training when income and training benefits are lost if workers take new jobs. In Jordan, it is instead recommended that Jordan use a system **of Training and Re-Employment Vouchers** that can be used for training even if the worker takes a new job or that can be used to reduce the costs of employing workers with such vouchers.

The level of funding for the proposed J-TAAF and Training and Re-Employment Vouchers is difficult to specify since their main rationale depends on how useful they are in moderating opposition to trade liberalization initiatives – a political calculation that is not easily susceptible to economic analysis. Potential funding for such TAA programs is nevertheless put into perspective with existing grants under other support projects and the proportion of restructuring costs, training costs or wages in re-employment that should be funded by government.

2.0 Trade Adjustment Assistance in Jordan

Introduction

Tariff policies in Jordan have provided high levels of protection to domestic industries producing products that substitute for imported commodities. Such protectionist policies provide little basis for long run growth, particularly for economies with small domestic markets. Sector studies carried out as part of an analysis of the tariff structure in Jordan demonstrate that the current levels of protection have not, in fact, promoted the development of competitive industries in Jordan, but instead have encouraged protected firms to focus almost exclusively on the small domestic market behind high tariffs. This has acted as disincentive to firms becoming efficient either through capturing scale economies or meeting the product standards necessary to enter export markets. The sector studies reveal that a number of these domestic sectors are already in relative decline in terms of market shares.

An effort is now being made to better integrate the Jordanian economy with the international economy and to increase efficiency and international competitiveness within the economy. Two major changes in trade policy will require firms competing with imports and exploiting or exploring the potential for exports to adjust to a changing international trade environment.

The first of these changes is a proposed reform in tariff policies and related efforts to facilitate international trade. Under this initiative, all tariffs will be brought down within a few years to three bands with a maximum tariff of 10%. This will quickly bring Jordan's tariff system into line with international best practices that have seen many developing countries open up their economies to international trade and investment flows – a change that has greatly contributed to more rapid growth in these economies.

The second of these changes is the entrance of Jordan into a series of preferential trade agreements under the Greater Arab Free Trade Agreement (GAFTA) and in bilateral free trade agreements with the US and the EU. The net benefits of these agreements will depend on whether their trade creating effects more than offset the trade diversion losses for Jordan. The net benefits may be small or negative if Jordan maintains significant protection of the domestic market against imports from outside these free trade areas but allows duty free or preferential access to her protected markets to member countries. Several of the latter countries have adjusted more quickly to avoid such losses by liberalizing their trade with non-member countries as well.

As is quantified in the main report on tariff reform, trade liberalization on a multilateral basis will yield significant benefits for the Jordanian society as a whole in terms of improved consumer welfare, improved efficiency in the economy as resources are shifted from inefficient import substituting activities into areas where Jordan has a comparative advantage and higher growth rates over time. However, it can be expected that both the free trade agreements and the tariff reform program will impose some adjustment costs and income losses on factors of production presently employed in highly protected manufacturing for the domestic market.

3.0 The Rationale for Trade Adjustment Assistance Programs

There are several arguments that have been put forward for special programs to help firms and workers adjust to changes in trade policy that might impact the profitability of firms and the income and jobs of workers.

The most compelling argument is that Trade Adjustment Assistance programs might be required if trade liberalization initiatives with large benefits for society at large are to be politically feasible. The following excerpts from a report¹ on TAA in the US indicate the nature of this rationale;

“Political changes are always difficult to predict precisely, but it is reasonable to expect that a more robust worker adjustment program would increase public confidence in policies supporting freer trade. Funds invested in such an initiative could thus benefit not only displaced workers but also the entire economy by increasing the ability of the United States -- and other democratic governments -- to adopt trade liberalization. Worker adjustment programs could thus be a perfect -- even necessary -- complement to free trade policy.”²

“... economists put the total benefit of liberal trade policy to the United States as high as \$1 trillion annually with the potential for an additional \$500 billion in gains if remaining barriers are eliminated. As a percentage of these numbers, the entire cost of TAA including the expansion would annually be about 0.2 percent of the total value of estimated trade benefits.”³

Something akin to this argument may be relevant to the trade liberalization effort in Jordan. Whereas the focus of opposition to trade liberalization initiatives in the US is on the negative impact on workers and communities expressed through their elected representatives, in Jordan there is also likely to be strong opposition from the owners of firms who have been shielded from import competition under protectionist trade policies. The businessmen who have been successful in lobbying for protection in the past can be expected to lobby vigorously against the loss of this protection under the Trade Liberalization Initiatives.

A closely related economic argument for trade adjustment assistance programs is that gainers from trade liberalization initiatives could *potentially* fully compensate losers for their losses and still be better off. It can be argued that this remains a *potential* gain as long as compensation is not actually paid via, for instance, Trade Adjustment Assistance programs that leave the losers no worse off than before the policy change. There are two problems with this argument, i.e:

¹ *Why We Should Expand Trade Adjustment Assistance* by Greg Mastel, available on the Coalition for Trade Adjustment Assistance website at www.taacoalition.com.

² Greg Mastel, 2006, p. 43

³ Greg Mastel, 2006, p. 54.

- Most policy changes or even changes in economic conditions unrelated to policy changes leave some better off and some worse off. It is not clear while changes in trade policy should be singled out as requiring government intervention to protect those who are harmed by such changes.
- The losses from trade liberalization initiatives are often high income owners of firms shielded from import competition who have benefited at the expense of consumers and other sectors of the economy from protectionist policies.

It is not clear that the general public should have to incur tax burdens to compensate such high income industrialists from the loss of this protection. The general presumption that Government assistance programs aimed an income support should be directed to low income groups might still be relevant for losses incurred by low income workers in firms negatively affected by changes in trade policy. However, in the Jordanian as well as the US context, many of these workers might not even be citizens and may not have firm specific human capital skills. The first factor suggests that many would not see an obligation to subsidize foreigners for losses and the second factor suggests that any such losses may be small.

A third element of the rationale for Trade Assistance programs is that imperfect markets for credit and labor or market failures implicit in the inability to capture all the benefits or research into new product development or production techniques may make the adjustment to changes in trade policies inefficient. Again, these market imperfections or market failures will undermine the efficiency of adjustment to changes in market conditions regardless of their source⁴. As a general principle, it is better to direct policy response towards improving the efficiency of factor markets (or reforming policy intervention that interfere with efficient factor markets) rather than trying to compensate just those firms affected by trade policy changes for their losses. This principle will be important in deciding on what priority to give to Trade Adjustment Assistance relative to more comprehensive efforts to improve the efficiency of markets and to improve the general business environment as will be discussed further below.

4.0 International Experience with Trade Adjustment Assistance

In this section, we review the experience in both developed and less developed countries with trade adjustment assistance and provide evidence on the possible benefits and costs of such programs.

The United States has a long - almost fifty year - experience with Trade Adjustment Assistance. These programs have been highly controversial and work that has been done in evaluating them is useful in identifying problems and possible solutions to these problems.

⁴ See for example Neary, P. (1982): Intersectoral Capital Mobility, Wage Stickiness and the Case for Adjustment Assistance and Mussa, M. (1982): Government Policy and Adjustment Process. In . In Bhagwati, J.N. (ed.) Import Competition and Response. NBER-CUP. See also Fung and Stalger, 1994.

In discussing these programs, it is useful to separate out the Trade Adjustment Assistance programs for firms from those intended to benefit displaced workers.

4.1 TAA for Firms

TAA for firms is administered by 11 regional centers throughout the United States. The operations of these centers are funded by grants from the Economic Development Administration in the Department of Commerce. These grants are used to cover operational and administrative activities of the Centers and to in turn provide grants to firms to cover a portion of the costs of approved restructuring or adjustment plans.

Firms seeking TAA benefits must petition EDA for certification of its eligibility. To be found eligible, a firm must demonstrate that:

- a significant number or proportion of the firm's workers have become totally or partially separated from their employment, or are threatened to become totally or partially separated;
- sales or production overall have decreased, or that sales or production of a product that represents at least 25 percent of its total production has decreased during the preceding 12-month period; and
- increases in imports of articles like or directly competitive with the firm's product contributed importantly to the employment separations (or threat thereof) and the declines in sales or production.

The staff of the Trade Adjustment Assistance Center works with firms to develop the documentation. EDA is required to determine the firm's eligibility within 60 days of receiving a petition.

After being certified, a firm has 2 years to develop a business recovery plan in consultation with the regional Center. This recovery plan should detail the firm's fundamental business operations, analyze its competitive problems, and propose specific projects to be implemented by one or more competitively selected third-party consultants.

Once EDA approves the plan, the Center selects specific projects within the plan and provides grants that cover a percentage of the costs (usually 50%) from the Center's available funds. Projects are limited to technical assistance such as marketing strategies, technical standards certification, product and process development, and computer system upgrades. Firms are permitted to receive up to \$75,000 in TAA funding but are required to match federal funds to implement the technical assistance projects. This design is not dissimilar to the approach taken with the Jordan Upgrading and Modernization Program managed by the Jordan Enterprise Corporation. It is therefore useful to consider how effective this design has been since it would not be too difficult to employ a similar approach in Jordan for Trade Adjustment Assistance.

Unfortunately, there is no systematic monitoring or evaluation of the Centers carried out by the EDA or other parts of the Commerce Department. However, the Office of Management and Budget in the Executive part of the US Government has carried out an assessment of the effectiveness of the Trade Adjustment Assistance for Firms in the US. Their evaluation was based on interviews with Center management and with some 54 firms that have had projects approved by EDA for funding by the Centers. The key findings can be briefly summarized.

Only 39% of the funds provided for the Trade Adjustment Centers actually funded grants to share the costs of implementing recovery plans of the firms. The remaining 61% of the funds were used to cover the costs of the Centers themselves, although some of these costs were incurred as staff worked with the firms to help them apply for EDA certification and to develop their recovery plans. This percentage of funds actually financing assistance to firms varied from a high of 59% to a low of just 12%. The Center with the lowest percentage of funds allocated to firms was at the time of the evaluation on probation for its relative low number of applications submitted and recovery plans developed. Subsequently, this Center was closed down.

The OMB study was critical of the relative small percentage of funds that actually covered costs for implementing recovery plans. This percentage would be further reduced if the administrative and operational costs with EDA for TAA programs were added to the administrative and operational costs of the TAA Centers. If these were only a quarter of the costs incurred in the centers, the 39% reaching the firms would be reduced to just 33%.

The percentage of funds reaching the firms relative to the total costs of the TAA for firms is actually much lower than the average 39% noted by OMB or the lower 33% noted above based on an assumption of EDA costs equal to 25% of the TAA Centers operational and administrative costs. It is costly to raise revenue to fund these programs both because of the administrative costs of raising tax revenues but, perhaps more importantly, the efficiency losses that are incurred from tax distortions. If these administrative and tax distortion costs are conservatively estimated as equal to 50% of the tax revenue used to fund such programs, then the funds reaching the firms being assisted is only 22% of the total costs incurred in funding, implementing and administering the program. This means that if these programs were to yield positive net benefits, every dollar of grant money spent would have to result in almost five dollars of benefits.

There are other factors that reduce the effectiveness of the grants provided the firms. The OMB interviewed managers from 72 firms that were certified as eligible for assistance. Of these, some 18 firms withdrew from the program. Of the remaining 54 firms, some 26 firms were considered successful by the TAA Centers. The interviews found that most firms appreciated the assistance but some noted that other factors were much more important in their successful recovery. For instance, the recovery plan for one firm involved an expenditure of some \$5.5 million, of which only \$50,000 came from the TAA Center. The Managers of many firms complained about the lack of timely funding for approved recovery projects. Some 31 firms completed projects that were to be partly funded by the Centers on their own due to a lack of timely access to Center funds. Directors of the Centers also complained about the low level of funds they had available, which had to be rationed across many approved recovery projects.

Despite many statements supporting the program from the intended beneficiaries and the Directors of the Centers, the Office of Management and Budget classified the TAA programs for firms as “ineffective”.

4.2 TAA for Workers

TAA for workers was established to provide assistance to those workers whose job loss could be traced to increased import competition. Applications for TAA are filed with the department of Labor by the employer experiencing the layoff, a group of at least three affected workers, a union, or the state or local workforce agency. Under TAA, workers enrolled in the program have access to a variety of benefits and services including the following:

Training: Participants may receive up to 130 weeks of training, including 104 weeks of vocational training and 26 weeks of remedial training, such as English as a second language.

Extended Income Support Participants may receive a total of 104 weeks of extended income support beyond the 26 weeks of unemployment insurance benefits available in most states.

Job search and relocation benefits: Payments are available to help participants search for a job in a different geographical area and to relocate to a different area to take a job.

Wage insurance benefit: The wage insurance benefit, known as the Alternative Trade Adjustment Assistance (ATAA) program, was created by the TAA Reform Act of 2002 as a demonstration project for workers age 50 years old or older and who find reemployment within 26 weeks of being laid off that pays less than \$50,000 and less than what they previously earned. Workers who meet these criteria are eligible to receive 50 percent of the difference between their new and old wages up to a maximum of \$10,000 over 2 years.

Health coverage benefit: The health coverage benefit, known as the Health Coverage Tax Credit (HCTC) and also created by the TAA Reform Act, helps workers pay for health care insurance through a tax credit. Workers receiving other TAA benefits can choose to receive the benefit in one of two ways--as an advance option that covers 65 percent of their monthly premiums, allowing them to lower the amount they have to pay out of pocket for health coverage, or as an end-of-year tax credit that is claimed on their income taxes.

Once certified as eligible, workers access these services through one-stop centers required under the Workforce Investment Act where they also receive case management services, such as counseling and vocational assessments

Although TAA benefits per participant are higher than with other more comprehensive programs to help unemployed and displaced workers, TAA assistance is a relatively small

program compared to these other programs. Unemployment insurance is funded by a federal payroll tax and administered by the States. Unemployed workers are entitled to up to 26 weeks of income support that averages about \$250 per week. Unemployment insurance covers 3-6 million beneficiaries depending on the level of unemployment. Displaced workers are also eligible for retraining assistance under the Workforce Investment Act (WIA). WIA expenditures are only for training costs and there is no income support attached to the program as with TAA. Assistance under WIA is provided to far more workers than under the TAA programs; averaging some 800,000 to 1.3 million participants annually in compared to 30,000 to 60,000 in the TAA programs in the early part of this decade. In 2004, UI funding was \$32.3 Billion while WIA funding was averaged between 2.5 and 3.5 billion while TAA funding, which was below 200 million before 2000 has increased rapidly since then but still averaged around \$500 million per year since then.

While TAA for workers in the US has existed since 1962 and more recently has been strengthened and expanded rather than cut back, there are several features of the programs that have critically noted in both reports by other Government agencies and in independent assessments by economists. The Government Accounting Office, an investigative agency for the US Congress, noted that relatively few of those eligible for training benefits and the income support available for those in training programs actually opted to enter such programs. In the three year period covered by their study for 2004-2006, only 32% of those eligible entered into the training programs⁵.

Furthermore, the GAO noted that while most trainees took vocational training courses, a growing percent took remedial English language or high school training rather than vocational training (see table 1). While such training might be beneficial, it is not clear why having been in a low skilled job in firms or industry facing import competition should give such workers an advantage in getting such training relative to workers in other industries who also are disadvantaged by not having such skills. The high proportion who required English language or remedial education also suggested that many were migrant workers who came either legally or illegally to look for work, and who just happened to find it in industries subsequently hurt by import competition. This may also be a relevant factor in Jordan where migrant workers come for jobs, but have the option of returning to their home countries if they are not able to find suitable employment within the host country, but with a dubious claim for special assistance if import competition threatens those particular jobs that they took.

⁵ See Government Accounting Office, 2007.

Table 1: TAA Training by Type, 2004-2006						
	2004		2005		2006	
Type of Training	Number	Percent	Number	Percent	Number	Percent
Occupational	42,793	84	29,909	79	27,101	75
Remedial	7,768	15	7,509	20	8,239	23
On the Job	368	1	356	1	590	2

The GAO study also found that very few workers were in 'on the job' training. On-the-job training (OJT) is training provided by an employer in the public or private sector to a TAA eligible worker who has been hired by the employer. Under the OJT contract, the employer is reimbursed for no more than 50 percent of the participant's wage for a specified duration. In the GAO study, there was little evidence that those who participated in TAA training were able to fare better with respect to the wages they earned compared to those who did not seek training. In fact, the wages for those who did not seek TAA assistance were generally higher than those who did seek assistance, although this may have been because those with better employment opportunities did not need assistance as much as those who sought help⁶. We will consider such training again after outlining some of the shortcomings of the TAA for workers that have been identified in some critical studies of TAA for workers in the US.

The criticisms of the TAA for workers program are based partly on the 'fairness' issue. Why should workers displaced by imports or by a shift in production abroad be given special assistance relative to the much larger number of workers displaced by other changes in the economic environment, for instance, changes in taste or increased competition from other domestic producers. But most of the criticisms concern the incentives implicit in most of the TAA programs for workers to stay unemployed (or go into illegal informal employment arrangements) in order to remain eligible for free or subsidized training, income support and health care benefits. These benefits, along with 26 weeks of normal Unemployment Insurance payments, allow workers to continue to get benefits for up to two years, providing a long term incentive not to work. The programs have also been criticized because the training provided to workers is not necessarily well matched with the needs of local business.

The Office of Management and Budget in the executive branch of the US Government has also been critical of the Trade Adjustment Assistance approach. Their report noted that:

"The program has a flawed design. It is partially duplicative of other Federal job training programs, such as the Workforce Investment Act (WIA) dislocated workers

⁶ Those who did not seek assistance received an average wage that was around 95% of their former wage while those who sought training generally got a wage equal to only 71 to 92 percent of their old wages. See Government Accounting Office, 2007, table 3 .

program, yet it fails to provide the reemployment assistance and placement services that are important to improving program outcomes.”⁷

The main recommendation was to design such programs so as to provide incentives and/or assistance for finding new jobs rather than creating disincentives to work i.e. providing benefits which will be lost if the worker takes on new employment. Despite this analysis and recommendation, most of the proposals related to TAA are geared to extending benefits to larger groups, service workers and workers who lose jobs because of production shifts to other countries even when such shifts are not to countries with Free Trade Agreements with the US.⁸

There are changes in the design of the TAA programs for workers that could eliminate the disincentive to work in most of the present programs. Two options that would do this are:

- Workers certified as having been displaced by import competition (or a shift of production overseas) might be better served by programs that provide firms an incentive to hire such workers. This could provide workers with ‘on the job’ training well matched with the available demand for labor. This approach is available under existing TAA for workers in the US, but it is (as noted above) a very minor part of the programs, accounting for only 1 or 2 % of the participants.
- Displaced workers could be given vouchers that would pay part of the cost of training at any accredited training program run by the public or private sector with the expectation that workers would have to combine this training with jobs or rely on their own support while taking such training. Such training vouchers could be used whether workers were working or not, whereas most of the TAA training activity comes combined with income support with both training and income support lost if workers take new jobs.

Both of these options will be considered again in discussing possible options for a TAA program in Jordan.

⁷ See the OMB review on Trade Adjustment Assistance” on the website “ExpectMore.Gov” where the program is rated as “ineffective” via a criteria that ranks programs against five potential ratings or Effective, Moderately Effective, Adequate, Ineffective, and Results Not Demonstrated.

⁸ See Holbeck, 2008, for a review of these proposals. Markheim and Sherck, 2007 also review these proposals and conclude: “International trade is a boon for the economy and for job creation, greatly adding to the wealth of all Americans. Though some workers in some industries may suffer due to the competitive pressures of international trade, it is not at all clear that Congress’s approach to this problem, TAA, has done anything to help them. Expanding a program that has no demonstrated results would be irresponsible; expanding such a program while adding restrictions likely to make it even less effective would be foolhardy. If Congress believes that workers in sectors facing international competition need help, it should enact policies that give those workers maximum flexibility, not create new handouts to workers who choose to leave jobs and incentives to delay re-employment”.

4.3 TAA in Developing Countries

The experience on special Trade Adjustment Assistance is more limited in developing countries, but some case studies of firm adjustment and government efforts to help carried out by the OECD can help set out some of the issues and provide some key insights.⁹ The main finding of the OECD study is summarized as follows:

“While the underlying forces that prompt economies to adjust vary from one case to another, it can be argued that a number of critical requirements for successful structural adjustment are common to all. These include: *i*) macroeconomic stability; *ii*) trade and regulatory reforms that can stimulate exports, improve local business conditions and foster competition, thereby also promoting private domestic and foreign investment; *iii*) long-term investments in human resources and infrastructure; *iv*) adequate support structures or institutions that can assist firms to adapt, upgrade and connect to export markets and provide information and advice to potential investors, and *v*) a proper sequencing of reforms (both economy-wide and sector-specific) that can help sustain the structural adjustment process. (p. 10)

and,

“...it is difficult for the government to “pick winners” and target assistance to particular industries. Instead, the government should *facilitate* structural adjustment, by creating an enabling economic and policy environment which allows firms and other agents to respond to adjustment pressures, by shifting their resources to more productive uses.” (p. 11)

The focus is therefore on assisting firms in taking advantage of new opportunities opened as through trade policy and related reforms aimed at fostering a more competitive environment as opposed to narrowly targeting previously protected firms for assistance.

Even with respect to previously protected firms focused on the domestic firm, it is not clear that increased exposure to import competition will require considerable expenditure on assistance for firms to restructure. There is evidence that a more competitive environment will provide the missing incentive needed for local firms with inefficient production processes to specialize in areas where they do have a comparative advantage and/or to innovate through quality improvements that allow them to survive and even to find export opportunities. A study at the firm level for Chile found that just this process occurred with increased import competition stimulating product quality improvements.¹⁰

⁹ See Jens Andersson, Federico Bonaglia, Kiichiro Fukasaku and Caroline Lesser, (2005), OECD Working Paper # 245. See also detailed studies for particular countries, including Emilio Antonio, Osamu Onodera for the Philippines, Jose Duran, Nanno Mulder and Riquel Ruiz for Ecuador and Somkiat Tankitvanich and Osamu Onodera for Thailand .

¹⁰ See Ana M Fernandes and Caroline Raunov, “Does Tougher Import Competition Foster Product Quality Upgrading?” World Bank Policy Research Paper, 4894 April 2009

The conclusions from the OECD and World Bank studies are sensible with one important qualification. Special trade adjustment assistance to previously protected firms or their workers may make sense if the owners of these firms, their workers or their political representatives are in a position to block the reform process if such assistance is not available. This consideration was the most compelling argument in favor of the TAA programs in the United States and it may be that such programs are needed for the same reason in Jordan. In the remainder of this paper, we discuss some specifics of the Jordanian case and provide some recommendations about the appropriate design of TAA programs if in fact policy makers decide that such programs are necessary to garner support and sustain the reform process, part of which involves the tariff reform programs set out in the Sabeq proposal.

5.0 What best Complements Trade Policy Reform in Jordan? Trade Adjustment Assistance or an Improved Business Environment

Given the problems with Trade Adjustment Assistance programs as reviewed above, the appropriate priority for introducing any TAA programs must be set in light of the steps that need to be taken to improve the general business environment in Jordan. Jordan has a long way to go in this regard, with an ease of doing business that ranks 101 out of 178 countries covered in the World Bank surveys on the ease of doing business (see table 2).

Table 2: Ease of Doing Business in Selected Economies			
		2008	2009
<i>Very Good Business Climate</i>			
Singapore	SGP	1	1
New Zealand	NZL	2	2
United States	USA	3	3
United Kingdom	GBR	6	6
Ireland	IRL	7	7
Canada	CAN	8	8
Australia	AUS	10	9
Japan	JPN	12	12
<i>Good Business Climate</i>			
Thailand	THA	19	13
Saudi Arabia	SAU	24	16
Bahrain	BHR	17	18
Malaysia	MYS	25	20
Korea, Rep.	KOR	22	23
Israel	ISR	30	30
Qatar	QAT	38	37
Chile	CHL	36	40
United Arab Emirates	ARE	54	46
Turkey	TUR	60	59
<i>Difficult Business Climate</i>			
Tunisia	TUN	81	73
Pakistan	PAK	74	77
China	CHN	90	83
Yemen, Rep.	YEM	123	98
Jordan	JOR	94	101
Egypt, Arab Rep.	EGY	125	114
Costa Rica	CRI	118	117

Not only does Jordan rank poorly compared to other countries, it has shown limited progress in improving the business environment. This is indicated both in the year to year changes in ranking in table 2, but also in the more detailed information provided in table 3. Jordan has fallen from a ranking of 94 in 2008 to 101 in 2009 mainly do to only limited progress in making it easier to start a business and greater difficulty in cross border trade, accessing credit and registering property.

Table 3: Ease of...	Doing Business 2009 rank	Doing Business 2008 rank	Change in rank
<u>Doing Business</u>	101	94	-7
<u>Starting a Business</u>	131	137	+6
<u>Dealing with Construction Permits</u>	74	72	-2
<u>Employing Workers</u>	52	51	-1
<u>Registering Property</u>	115	110	-5
<u>Getting Credit</u>	123	116	-7
<u>Protecting Investors</u>	113	110	-3
<u>Paying Taxes</u>	22	21	-1
<u>Trading Across Borders</u>	74	64	-10
<u>Enforcing Contracts</u>	128	127	-1

The low ranking of Jordan with respect to starting a business indicates a lack of flexibility in responding to new business opportunities that is likely to be an important constraint to a adjustment to changes in trade policy. Resources spent in trying to assist firms in adjusting to trade policy changes might be better spent in making it easier for new firms to enter in response to new opportunities.

6.0 Industry Support Programs or Trade Adjustment Assistance?

Programs aimed at addressing the policy, regulatory, legal, and poor commercial business environment at the industry level may be a useful component of reforms aimed at improving the general business environment, but it is doubtful if such efforts should be directed at helping previously protected firms who will be forced to face a more competitive environment from imports as a result of trade reform. Resources would be better directed to helping firms with better potential to be internationally competitive and in a better position to take advantage of the opportunities that will be opened up by trade policy reform.

Support programs for enhancing the competitiveness of industries already exist in Jordan in the form of the Jordan Upgrading and Modernizing Program administered from within the Jordan Enterprise Corporation. It is useful to review these initiatives before considering the merits of adding special Trade Adjustment Assistance programs for firms harmed by import competition related to trade liberalization initiatives. The objectives of JUMP are listed on the program website as:

- Enhance productivity, improve product's quality, and reduce unit cost
- Enable enterprises to face the increased competition in the domestic, regional and global markets
- Increase market share and develop non-traditional export markets
- Benchmark and adopt best international business practices
- Develop strategic direction driven by market needs
- Enhance capabilities of human resources
- Substitute imported production inputs by local products

JUMP is managed by a steering committee headed by the Minister of Industry and Trade and is equally comprised of representatives from both the public and private sectors. The program website indicates that JUMP is managed by an experienced national staff assisted by the best local and international expertise concentrating on the following support services..

Need Assessment Studies

- **Full Scale Diagnostic study and Upgrading Plan:** a detailed diagnostic study representing company's present competitive position. It utilizes the international best practices in terms of marketing and productive (technological) status, human resources, information systems, and financial status. It is prepared by a group of local and international experts and leads to an upgrading plan which includes needs that will enhance the production capacities of company such as machines, equipment, and other needs that will enhance the company's managerial Capabilities like training, market studies, ...etc.
- **Business Plan:** a document similar to the Full Scale Diagnostic study, prepared by a group of local / international experts and summarizes the outcome of the company's current position analyses in terms of field of work, competitive position, human resources, financial position. It also determines the strategic objectives of the company. The document includes a comprehensive development plan aiming at enhancing the company to be able to achieve its desired objectives.
- **National Linkage Program Development Plan:** a study designed to link a buyer company that imports the production inputs from an external source with a local alternative supplier. The study is prepared by the program staff in cooperation with

both supplier and buyer. The study specifies the requirements and standards of the buyer and comes up with a development plan aiming at improving the supplier to be able to meet the buyer's expectations.

Supported Services in Upgrading and Development Plans

Once the upgrading and modernization plans are developed, their implementation is facilitated by grants sharing the costs of:

Capacity Building Activities :

- Enhancement of Productivity equipment
- Acquisition of new technologies
- Quality control, testing and research equipment
- Maintenance and safety equipment.
- CAM / CAD systems, automation, and robots.
- Managerial Capability Building:

Marketing Activities.

- Product and market development.
- Marketing and export promotion.
- Market research and marketing plan.
- Training to improve marketing efficiency and skills.
- Any other marketing-related activities.

Production Activities.

- Time analysis and productivity improvement.
- Production layout and organization
- Production management
- Quality management
- Information technology; CAD/CAM; product data management; intra and extranet etc.
- Cost analysis
- Maintenance management
- International conformity certificates such as the ISO 22000, HACCP, UL, and CE.
- Training on managing, planning, and improving production efficiency.
- Other activities related to the enhancement of production methods.

Organization and Human Resource Development Activities.

- Organization restructuring
- Human resources building
- Training.

National Linkage Program (NLP) Services

The NLP is a component of the Jordan Upgrading and Modernization Program (JUMP) which brings together large manufacturing firms that use imported production inputs with local SMEs to overcome the major hurdle of manufacturing suitable product. In this way, the NLP helps in creating an enduring business-to-business relationship. The program functions briefly as follows:

- Identify large firms using imported production inputs and determine their needs and requirements.
- Identify local SMEs supplying the services and products, which are capable to meet the needs and requirements of large firms.
- Carry out a detailed technical audit of that supplier to pinpoint the areas required for upgrading, in order to meet the expectations of the purchasing company, and then a development plan is prepared to satisfy all standards and requirements of the purchasing company
- Follow-up and coordinate the implementation of the development plans by the supplying companies.

The JUMP corresponds closely with the **TAA for firms** program in the United States in key respects. Firstly, there is a one stop center managing the JUMP program from within the Jordan Enterprise Development Corporation. Secondly, it provides support to firms in developing plans and provides grants to firms to implement approved plans. Thirdly, it relies heavily on registered business consultants to support the upgrading of business practices, just as the TAA for firms programs rely on registered consultants in supporting restructuring programs. The JUMP programs registered support firms cover a wide range of activities in support of upgrading and modernization activities, classified as follows:

- Business Management Services – 41 companies
- Business Support Center Services – 2 companies
- Energy Saving Services – 7 companies
- Export Marketing Support Services – 2 companies
- Foreign Direct Investment Services – 2 companies
- Financial Services – 6 companies
- Industrial Design and Engineering – 11 companies
- Information and Technology Services – 31 companies
- Institutional Development Services – 4 companies
- Legal Advisory Services – 1 company
- Quality Environment and Safety – 11 companies
- Training Services – 13 companies
- Public Relations Services – 2 companies
- Conferencing Services – 1 company

for a total of 134 companies registered as of June 2009.

In addition, firms are also able to access support from the Jordan Enterprise Corporation which houses the JUMP program. The Jordan Enterprise Development Corporation (JE) promotes Jordanian exports and enhancing their competitiveness in the global market, partly through trade fairs. The corporation also offers its services to exporters as local agent for the export finance and guarantee schemes of the Islamic Development Bank (IDB), the

Export Credit Guarantee Scheme of the Inter-Arab Investment Guarantee Corporation, and the Jordan Loan Guarantee Corporation.¹¹

There are, however, some significant differences between the JUMP and the TAA for firms programs. First, the JUMP program is designed to upgrade the efficiency of all Jordanian firms and is not geared specifically to helping firms harmed by import competition. Second, the grants are more valuable in the JUMP program than those provided under the TAA for firms in the United States, which have a ceiling of \$75,000 per assisted firm compared to grants for firms in Jordan that can reach a half million Jordanian dinars (see table 3).

Table 3 : Grant Ceilings by Activity			
	Tier 1 Companies	Tier 2 Companies	Tier 3 Companies
Needs Assessment Studies			
▪ Diagnostic and Upgrading Plan	5,000	10,000	15,000
▪ Business or NLP Plan	3,000	15,000	7,000
Capacity Building Support	50,000	150,000	300,000
NLP Development Plan Support	35,000	100,000	150,000
Business Plan Support	20,000	40,000	80,000

The grants are provided on a cost sharing basis with a variable subsidy, with higher grants but generally lower subsidy rates available for the larger firms under a three tier classification of firms. For instance, 90% of the needs assessments studies can be covered by a grant, 30-70% of the NLP and Business Plan support can be covered by grants, with the higher percentages available to the small firms, and 10-40% of the capacity building investments can be covered by a grant depending on the type of equipment or support needed.

The JUMP program aims at using Government resources to support the up-grading and modernization of Jordanian businesses just as the TAA for firms intended to support restructuring in firms threatened or harmed by import competition. The same point made with respect to the **TAA for firms** is also relevant. Once the extra costs incurred in raising the tax revenues (both the distortion costs and administrative costs) and of administering and operating these support programs, the actual returns attributable to this support (i.e. the gains that wouldn't have occurred without this support) need to be considerable if these programs are to yield net benefits. Such returns may be obtained and it is beyond the scope of this paper to try and evaluate these returns. However, an alternative approach motivated by shortcomings in Government policy that hinder the ability of the private sector to operate efficiently provides a rationale for an alternative approach aimed at improving the enabling environment for the private sector by addressing such shortcomings.

¹¹ Jordan Enterprise Development Corporation online information. Viewed at: <http://www.jedco.gov.jo/services.html#>.

The SABEQ-Jordan program (which has funded the work on tariff reform and this work on evaluating the scope for beneficial trade adjustment assistance programs as a complement to the tariff reform initiative) is directed at this effort to improving the enabling environment. As summarized on the SABEQ Jordan website:

“The objective of this component is to dramatically reduce public sector constraints on the growth, innovation, and productivity of the private sector in Jordan. By working to improve processes, people and mindsets in government and private sector organizations and by simplifying laws, regulations and instructions that hinder private sector innovation and growth, the program is designed to spark and encourage innovation across Jordan’s economy”

The tasks laid out for this component include:

- Improving the regulatory processes within and across the government agencies responsible for facilitating the establishment and operating businesses in Jordan. The improvements in processes will be supported by initiatives to improve the culture of service in the public sector to institutionalize the reform efforts from the bottom up.
- Engaging representatives from the private sector and civil society in the efforts of reducing government constraints, mainly through building their capacity to advocate for reform and equipping them with the tools to measure, understand and demonstrate the transaction costs that result from inefficient GOJ constraints and excessive regulation.
- Improving the regulatory environment to eliminate and streamline regulations that limit the growth of the private sector in Jordan, through reducing the complexity and cost of starting and operating a business using innovative tools and implementing international best practices that achieved extraordinary results in other countries similar to Jordan. This will also include engagements with stakeholders to improve the flow of laws and regulations that affect the business sector, as well as institutionalizing an open and public consultation between the government and the private sector during the decision-making process.”

This project can be viewed as motivated by the present low ranking of Jordan with respect to the “ease of doing business” and “poor enabling environment” as set out in the World Bank rankings at the beginning of this section.

The alternative approaches can be usefully illustrated with respect to the promotion of Jordanian exports. The Jordan Enterprise and Jump programs offer specific services to Jordanian exporters aimed at increasing their international competitiveness. An example is the marketing services from consultant firms under the JUMP program and the trade fairs carried out by the Jordanian Enterprise Corporation. However, one of the most effective ways of linking firms to international markets is through the development of internet based e-commerce. The SABEQ program focuses on the low penetration of the internet and e-business in Jordan and seeks to increase competition, reform regulatory structures and provide support to education and training activities to lower the cost and increase the

penetration of the internet and e-commerce in Jordan. This is part of the effort to improve the enabling environment for all firms, and allow them to make the linkages needed to integrate more efficiently with global market, both for products and services.¹²

The dual approach implicit in the JUMP program in the Jordan Enterprise Corporation and the SABEQ project address a wide spectrum of obstacles to developing a more competitive Jordanian economy capable of growth rates substantially above those achieved with an ‘inward looking’ strategy based on protection to import competing industries. The main question to be addressed in the remainder of the paper is whether there is a compelling reason to add Trade Adjustment Assistance to the support programs that already exist and, if so, how should they be designed.

7.0 Implementing Trade Adjustment Assistance in Jordan

On economic grounds, it appears that the focus in Jordan should be on improving the “enabling environment” for the private sector (i.e. improving the ease of doing business in the World Bank’s terminology) and providing support to all firms in adjusting to a more competitive environment with a more open economy. Jordan already has such programs in place as discussed in the preceding section. Is there a need for special programs of Trade Adjustment Assistance for firms or workers who are harmed by trade liberalization initiatives in addition to these existing programs?

The most compelling reason for introducing TAA programs designed to assist firms or workers harmed by import competition is if such assistance is deemed critical to success in pursuing trade liberalization initiatives. This was the best argument for TAA in the US and it may also be a valid rationale for such programs in Jordan. If it is felt that such programs are essential to success with trade liberalization in Jordan, economic analysis can suggest some important principles in designing such programs.

TAA for Firms in Jordan (J-TAAF)

Just as the National Linkage Program (NLP) under the Jordan Upgrading and Modernization Program is designed to give special assistance to domestic producers of substitutes for imports of intermediate goods, it would be possible to add a Trade Adjustment Assistance program for firms facing increased competition from imported final products. This could be designed similar to the present Upgrading and Modernization programs, based on:

¹² See Information Technology Association, *National Information Strategy for Jordan, 2007-2011*, Final Report, SABEQ, 22 July 2007 and Dennis Hall, with inputs from Anupam Govil, Kinan Jarada, Alaa Qattan, and Craig Zoll, *Market Demand Assessment for Outsourcing Sector: An Analysis of Demand, Supply and Steps Required to Develop the BPO Sector in Jordan*, USAID Report under the SABEQ project, April 22, 2009

- assistance in developing a restructuring program to diversify production or upgrade quality so as to become competitive with imports in a liberalized trading environment, and
- grant support covering a share of the cost of implementing agreed components of the restructuring plan using consultants and sharing costs of needed investments.

The shares covered by the new program (possibly named J-TAAF for Jordan - Trade Adjustment Assistance Facility) could be based on the shares presently used in the JUMP program. This would provide a commitment by Government to fund up to a specified level of expenditures a share of all firms that could be certified as harmed or threatened by increased import competition through the tariff reform program or through bilateral or multilateral free trade initiatives.

It is difficult to define the appropriate level of funding for such a program on the basis of economic analysis. For reasons outlined earlier, it is doubtful that the economic benefits in terms of the benefits from such restructuring programs will exceed the costs of such programs. The benefits instead are to be found in facilitating the trade liberalization efforts that will greatly benefit consumers, firms with export potential, service sectors and tourism. The appropriate level of funding therefore will depend on a political judgment of what is required to successfully moderate opposition to trade liberalization.

Table 4 : Grant Ceilings by Activity			
	Tier 1 Companies	Tier 2 Companies	Tier 3 Companies
Needs Assessment Studies			
▪ Diagnostic and Upgrading Plan	5,000	10,000	15,000
▪ Business or NLP Plan	3,000	15,000	7,000
Capacity Building Support	50,000	150,000	300,000
J-TAAF Support	50,000	150,000	300,000
NLP Development Plan Support	35,000	100,000	150,000
Business Plan Support	20,000	40,000	80,000

It might make sense to simply add the J-TAAF program to the list of JUMP sub programs with similar levels of grants made available to firms eligible for support due to a negative impact on these firms from trade liberalization initiatives as in table 4. As indicated in table 4, the grants available under the J-TAAF sub-program could be made similar to those available under the capacity building programs under JUMP, perhaps with an assurance to firms harmed by import competition that would have access to a guaranteed total level of grants being available or as a percentage of all grants being made.

TAA for Workers: Training and Re-Employment Vouchers

It is doubtful if programs to provide training, income support and related benefits along the lines of the TAA for workers programs in the US are appropriate in Jordan. Many workers may not be Jordanian citizens and it is doubtful if Jordanian taxpayers should be burdened with long term support for foreign workers who lose jobs due to opening up the economy to trade. Even if such programs were to be restricted to those with Jordanian citizenship, many of these worker programs have been found “ineffective” in other countries because of the incentives they provide to remain unemployed or to shift into informal unemployment that maintains access to TAA benefits. Even the training provided has often been found in the US to be poorly linked to the skills demanded in the market place or in the new industries that are competitive in an open economy.

A better approach to providing assistance to workers is to increase the incentives for finding work or to providing jobs to such workers along with the ‘on the job’ training that is likely to be most helpful to displaced workers. It is therefore recommended that any assistance that is provided be through **Training and Re-employment Vouchers** that could be used to partially pay for training or which could be used to facilitate workers attaining employment status with new firms. Providing such employment status typically implies a commitment by firms to long term employment or provides workers either protection against, or compensation for, dismissal from the firm with which they are employed. Such vouchers could then be cashed in by private or public training institutes to cover part of the costs of training or by employers once they have provided workers with full employment status in new employment. These vouchers could alternatively be used to pay part of the costs of training in cases where workers found jobs that could be combined with their training activities.

The value of the voucher could be related to the wage earned in the job that was displaced due to import competition or set as a percentage of the wage in the new job obtained or the fee charged for the training being taken. The re-imbursement for training or the subsidy for re-employment being provided to workers displaced by import competition would best have a time limit of say two years during which they could be used after the workers were certified as eligible for Trade Adjustment Assistance.

Certification of eligibility for such training or re-employment vouchers could be done after an application by workers, labor unions or firms based on evidence that they have lost jobs due to Trade Liberalization initiatives. This evidence would typically include data that shows that the firms they are employed with have lost market share due to increased imports linked to these trade liberalization initiatives. This is the same sort of evidence that would be provided by firms who are seeking assistance under the previously discussed J-TAAF program established as a separate sub-program in the JUMP program. The same administrative unit responsible for certifying firms as eligible for assistance under the J-TAAF program could also be used to certify displaced workers as eligible for Training and Re-employment vouchers, even if the firms involved were not making an application for assistance for re-structuring. The vouchers could be given a specific monetary value or set as a percentage of training costs or wages in re-employment. As with the J-TAAF grants, the voucher value should probably not exceed about 30% of the cost of training or wage in re-employment so as to not excessively subsidize those who just happen to be laid off due to increased competition from imports.

A valid objection could be raised against such programs as they give an advantage to workers displaced by increased import competition linked to trade liberalization initiatives relative to other workers displaced by more effective domestic competition or due to changes in tastes within the market place or even relative to workers just entering the labor force for the first time. Just as protection is relative and is given to some firms to the disadvantage of others, subsidies are also relative and work to the disadvantage of all those without access to such support. The justification for such programs is again that they might moderate opposition to trade liberalization initiatives from worker groups in industries that might be harmed and allow the much larger benefits for other groups to be realized – just as with the rationale for TAA assistance for firms.

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